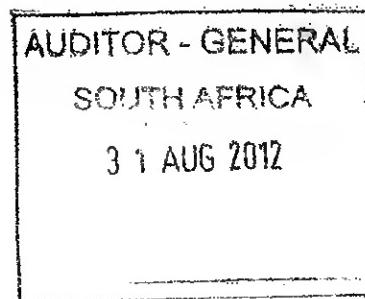




Great Kei Municipality
Annual Financial Statements
For the year ended 30 June 2012

Issued 31 August 2012



Annual Financial Statements

for

GREAT KEI MUNICIPALITY

for the year ended 30 June: 2012

Province: Eastern Cape

Contact Information:

Name of Municipal Manager:	Mr. C.M. Mbekela
Name of Chief Financial Officer:	Mrs. P. Gwana
Contact telephone number:	0438311028
Contact e-mail address:	puleng@greatkeilm.gov.za

Name of relevant Auditor:	AUDITOR GENERAL
Contact telephone number:	043 709 7200
Contact e-mail address:	ramap@agsa.co.za

GREAT KEI MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2012

General information

Members of the Council

N. W. Tekile	Mayor
T. M. Mali	Member
N. Moli	Member
N. Dyani	Member
W. Ndoro	Member
L. Bangani	Member
M. Mzamo	Member
N. N. Mevana	Member
N. P. Mgema	Member
N. Ngabayena	Member
L. Gavumente	Member
J. C. Labuschagne	Member
S. M. Jacobs	Member

Municipal Manager

Mr. C. M. Mbekela

Chief Financial Officer

Mrs. P. Gwana

Grading of Local Authority

Grade 2

Auditors

Auditor-General

Bankers

Standard Bank Limited

GREAT KEI MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2012

General information (continued)

Registered Office: Komga

Physical address: 17 Main Street
Komga
4950

Postal address: Private Bag X2
Komga
4950

Telephone number: 043 831 1028

Fax number: 043 831 1306

E-mail address: manager@greatkeilm.gov.za

GREAT KEI MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2012

Approval of annual financial statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 46, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.
I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 21 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Municipal Manager:

DATE: 31 August 2012

GREAT KEI MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2012

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GREAT KEI MUNICIPALITY
STATEMENT OF FINANCIAL POSITION
as at 30 June 2012

	Note	2012 R	2011 R Restated
ASSETS			
Current assets		35,024,348	18,277,747
Cash and cash equivalents	1	28,040,768	16,328,539
Trade and other receivables	2	6,983,579	1,949,209
Non-current assets		328,478,325	340,841,734
Property, plant and equipment	3	201,415,374	213,916,398
Intangible assets	4	178,009	40,394
Investment property carried at deemed cost	5	126,884,942	126,884,942
Total assets		363,502,672	359,119,482
LIABILITIES			
Current liabilities		24,261,487	10,606,729
Trade and other payables from exchange transactions	6	8,039,811	3,816,823
Consumer deposits	7	80,503	80,503
VAT payable	8	1,444,519	1,922,816
Current provisions	9	2,239,503	1,948,108
Current portion of unspent conditional grants and receipts	10	10,573,330	1,003,762
Current portion of borrowings	11	257,048	257,048
Other current financial liabilities	12	1,626,772	1,577,671
Non-current liabilities		3,695,642	3,944,007
Non-current borrowings	11	2,688,922	2,945,970
Non-current provisions	13	1,006,720	998,037
Total liabilities		27,957,129	14,550,736
Net assets		335,545,544	344,568,746
NET ASSETS			
Accumulated surplus / (deficit)		335,545,544	344,568,746
Total net assets		335,545,544	344,568,746

GREAT KEI MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
for the year ending 30 June 2012

	Note	2012 R	2011 R Restated
Revenue			
Property rates	14	12,243,249	10,355,256
Service charges	15	8,193,127	11,778,520
Rental of facilities and equipment	16	181,004	266,916
Interest earned - external investments	17	794,059	790,808
Fines		1,650	10,600
Licences and permits		2,397,647	1,190,073
Government grants and subsidies	18	34,326,625	34,228,387
Other income	19	1,224,682	1,675,649
Total revenue		59,362,043	60,296,209
Expenses			
Employee related costs	20	19,276,546	17,121,242
Remuneration of councilors	21	2,847,317	2,529,904
Bad debts		3,993,977	31,043,506
Depreciation and amortisation expense	22	16,122,291	14,445,712
Repairs and maintenance		1,411,443	1,742,636
Finance costs	23	443,099	445,501
Bulk purchases	24	6,259,354	5,145,745
General expenses	25	15,619,913	8,323,733
Total expenses		65,973,939	80,797,978
Profit / (loss) on fair value adjustment	26	-	(166,627)
Surplus / (deficit) for the period		(6,611,896)	(20,668,396)

GREAT KEI MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS
as at 30 June 2012

		Note	R	R
			Accumulated Surplus/(Deficit)	Total: Net Assets
Balance as previously reported at 30 June	2010			
Changes in accounting policy			31,749,276	31,749,276
Restated balance			333,487,866	333,487,866
Surplus / (deficit) for the period			<u>365,237,142</u>	<u>365,237,142</u>
Balance at 30 June 2011			(20,668,396)	(20,668,396)
Restated balance			<u>344,568,746</u>	<u>344,568,746</u>
Surplus / (deficit) for the period			(6,611,896)	(6,611,896)
Balance at 30 June 2012			<u>337,956,850</u>	<u>337,956,850</u>

GREAT KEI MUNICIPALITY

CASH FLOW STATEMENT

as at 30 June 2012

	Note	2012 R	2011 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		50,389,773	41,551,435
Sales of goods and services		11,464,106	3,389,002
Grants		34,326,625	34,228,387
Interest received		794,059	790,808
Other receipts		3,804,983	3,143,238
Payments		35,053,782	30,115,123
Employee costs		22,123,863	19,651,146
Suppliers		12,486,820	10,018,476
Interest paid		443,099	446,501
Net cash flows from operating activities	27	15,335,992	11,436,312
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets (PPE)		(3,130,000)	(13,157,200)
Purchase of intangibles		(236,715)	(60,590)
Net cash flows from investing activities		(3,366,715)	(13,217,790)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(257,048)	(227,309)
Net cash flows from financing activities		(257,048)	(227,309)
Net increase / (decrease) in net cash and cash equivalents		11,712,229	(2,008,787)
Net cash and cash equivalents at beginning of period		16,328,539	18,337,326
Net cash and cash equivalents at end of period	28	28,040,768	16,328,539

GREAT KEI MUNICIPALITY
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

1 BASIS OF ACCOUNTING

1.1 BASIS OF PRESENTATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

1.2 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.3 GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1.4 COMPARATIVE INFORMATION

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.5 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 8 Interest in Joint Ventures - issued August 2006

GRAP 18 Segment Reporting - issued March 2005

GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008

GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007

GRAP 103 Heritage Assets - issued July 2008

The following standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted by the municipality:

IAS 19 Employee Benefits - effective 1 January 2009
IFRIC 17 Distribution of Non-cash Assets to Owners - effective 1 July 2009

2 PROPERTY, PLANT AND EQUIPMENT

2.1 INITIAL RECOGNITION

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

2.2 SUBSEQUENT MEASUREMENT - COST MODEL

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

2.3 DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Infrastructure		Other	
Tarred roads and Paving	30 years	Buildings	30 years
Access roads	3 years	Vehicles	5 years
Electricity	10 years	Office equipment	5 years
Community		Furniture and fittings	7 years
Buildings	30 years	Furniture and fittings	7 years
Recreational Facilities	20-30 years	Plant and machinery	10 years
Halls	30 years	Other equipment	10 years
Parks and gardens	20-30 years	Landfill sites	186 years
Heritage assets		Other equipment	10 years
Buildings	30 years	Landfill sites	186 years
		Computer equipment	5 years

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

2.4 DERECOGNITION

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

3 INTANGIBLE ASSETS

3.1 INITIAL RECOGNITION

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

3.2 SUBSEQUENT MEASUREMENT - COST MODEL

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

3.3 AMORTISATION AND IMPAIRMENT

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	3 years
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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

3.4 DERECOGNITION

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

4 INVESTMENT PROPERTY

4.1 INITIAL RECOGNITION

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

4.2 SUBSEQUENT MEASUREMENT - COST MODEL

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates as disclosed under note 2.4 above are applicable where appropriate.

5 FINANCIAL INSTRUMENTS

5.1 INITIAL RECOGNITION

Financial instruments are initially recognised at fair value.

5.2 SUBSEQUENT MEASUREMENT

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

5.2.1 INVESTMENTS

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

5.2.2 TRADE AND OTHER RECEIVABLES

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

5.2.3 TRADE PAYABLES AND BORROWINGS

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

5.2.4 CASH AND CASH EQUIVALENTS

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities; other financial liabilities carried at amortised cost.

6 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

7 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

8 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

9 PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

- (a) The municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
 - principal locations affected;
 - function, and approximate number of employees who will be compensated for terminating their services;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

10 LEASES

10.1 MUNICIPALITY AS LESSEE

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

10.2 MUNICIPALITY AS LESSOR

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

11 REVENUE

11.1 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. The estimates of consumption between meter readings are based on previous consumption patterns.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

11.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

11.3 GRANTS, TRANSFERS AND DONATIONS

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

12 BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

13 RETIREMENT BENEFITS

The municipality provides retirement benefits for its employees and councilors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued biennially on the projected unit credit method basis. Deficits identified are recognised as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. Specific actuarial information in respect of individual participating municipalities is unavailable due to centralised administration of these funds. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

GREAT KEI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

	Note	2012 R	2011 R
1 CASH AND CASH EQUIVALENTS			
Cash and cash equivalents consist of the following:			
Cash at bank		7,633,613	5,392,343
Cell deposits		20,407,155	10,936,196
		<u>28,040,768</u>	<u>16,328,539</u>

The Municipality has the following bank accounts: -

Current Account (Primary Bank Account)

Standard Bank Limited : Account Number 280720963	4,051,132	2,352,841
Cash book balance at beginning of year	2,352,841	3,731,965
Cash book balance at end of year	<u>4,051,132</u>	<u>2,352,841</u>
Bank statement balance at beginning of year	2,266,721	877,040
Bank statement balance at end of year	<u>1,521,256</u>	<u>2,286,721</u>

Current Account (Other Account)

Standard Bank Limited : Account Number 285973452	1,726,925	1,217,122
Standard Bank Limited : Account Number 285946110	1,855,556	1,822,380
Cash book balance at beginning of year	3,039,502	
Cash book balance at end of year	<u>3,582,481</u>	<u>3,039,502</u>
Bank statement balance at beginning of year	3,039,502	
Bank statement balance at end of year		
Standard Bank Limited : Account Number 285973452	1,726,925	1,217,122
Standard Bank Limited : Account Number 285948110	1,855,556	1,822,380
	<u>3,582,481</u>	<u>3,039,502</u>

Investment Accounts

Standard Bank Limited : Account Number 285977334	1,694,214	1,664,127
Standard Bank Limited : Account Number 388520523-401	1,509	1,486
ABSA Bank Limited : Account Number 9079485834	10,800	10,791
Standard Bank Limited : Account Number 388526734-003	623,512	603,547
Standard Bank Limited : Account Number 388529766-402	8,723,254	2,056
Standard Bank Limited : Account Number 388528872-001	1,240,952	398,239
Standard Bank Limited : Account Number 388528672-002	1,689	715,958
Standard Bank Limited : Account Number 388527544-402	5,170,181	6,125,201
ABSA Bank Limited : Account Number 9059902802	733,568	1,229,151
Standard Bank Limited : Account Number 388528672-003		33,543
Standard Bank Limited : Account Number 38852386-001	<u>2,207,478</u>	<u>152,098</u>
Cash book balance at end of year	<u>20,407,155</u>	<u>10,936,196</u>

Bank statement balance at end of year

Standard Bank Limited : Account Number 285977334	1,694,214	1,664,127
Standard Bank Limited : Account Number 388520523-401	1,509	1,486
ABSA Bank Limited : Account Number 9079485834	10,800	10,791
Standard Bank Limited : Account Number 388526734-003	623,512	603,547
Standard Bank Limited : Account Number 388529766-402	8,723,254	2,056
Standard Bank Limited : Account Number 388528672-001	1,240,952	398,239
Standard Bank Limited : Account Number 388528672-002	1,689	715,958
Standard Bank Limited : Account Number 388527544-402	5,170,181	6,125,201
ABSA Bank Limited : Account Number 9059902802	733,568	1,229,151
Standard Bank Limited : Account Number 388528672-003		33,543
Standard Bank Limited : Account Number 38852386-001	<u>2,207,478</u>	<u>152,098</u>
Total cash and cash equivalents	<u>20,407,155</u>	<u>10,936,196</u>

28,040,768 16,328,539

GREAT KEI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note	2012 R	2011 R
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2 TRADE AND OTHER RECEIVABLES

2.1 Summary

Trade	6,682,540	1,904,555
Other	101,039	44,654
Total	6,783,579	1,949,209

2.2 Gross aging: Trade

Rates:		
Current (0 - 30 days)	970,474	-
31 - 60 Days	951,241	-
61 - 90 Days	845,904	-
91 and above	15,930,240	-
	18,697,859	-

Electricity:

Current (0 - 30 days)	234,400	-
31 - 60 Days	141,427	-
61 - 90 Days	167,243	-
91 above	4,845,641	-
	5,388,711	-

Refuse

Current (0 - 30 days)	4,452,581	-
31 - 60 Days	424,608	-
61 - 90 Days	415,595	-
91 above	17,102,930	-
	22,395,714	-

Total

Total Provision	46,482,284	-
	35,538,138	-
	10,944,146	-

The comparative aging information was not available for the debtors by category

2.3 Summary of Debtors by Customer Classification

Consumers	Industrial / Commercial	National and Provincial Government
	R	R

as at 30 June 2012

Current (0 - 30 days)	5,299,118	266,034	92,302
31 - 60 Days	1,257,682	177,308	82,287
61 - 90 Days	1,169,857	224,914	33,971
91 and above	32,780,713	3,799,202	1,801,711
Sub-total	40,507,370	4,467,458	2,010,271

Less: Provision for doubtful debts

Total debtors by customer classification	40,507,370	4,467,458	2,010,271
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as at 30 June 2011

Current (0 - 30 days)	1,752,850	2,317,520	181,103
31 - 60 Days	796,580	564,747	102,000
61 - 90 Days	761,452	555,052	500,894
91 and above	10,290,312	18,629,666	990,517
Sub-total	13,601,194	22,066,985	1,774,514

Less: Provision for doubtful debts

Total debtors by customer classification	(12,891,551)	(21,057,363)	(1,589,224)
	709,643	1,009,622	185,290

Balance at beginning of the year	36,499,161	4,055,204
Contributions to provision	3,993,977	31,276,665
Fair value adjustment	-	206,269
Reversal of provision	-	-
Trade	40,493,138	35,538,138
Other receivables	961,023	961,023
Balance at end of year	41,454,151	36,499,161

2.5 Included in other receivables provision are long outstanding councillors debts which are under investigation to establish how they arose and possible recovery.

GREAT KEI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

3 PROPERTY, PLANT AND EQUIPMENT

3.1 Reconciliation of Carrying Value	Land	Buildings	Infrastructure	Community	Other Assets	Total
	R	R	R	R	R	R
as at 1 July 2011	998,037	88,906,395	112,138,730	8,844,528	3,028,708	213,916,398
Cost/Revaluation	-	-	-	-	-	-
Change in accounting policy (note 29)	998,037	134,782,690	204,844,290	9,789,021	4,371,044	354,585,082
Accumulated depreciation and impairment losses	-	(45,876,295)	(92,505,560)	(944,493)	(1,342,336)	(140,668,684)
Acquisitions	-	-	11,088,818	-	822,959	11,911,775
Capital under Construction	-	-	(8,904,445)	-	-	(8,904,445)
Depreciation	-	(2,711,183)	(12,122,474)	(371,236)	(812,931)	(16,017,824)
as at 30 June 2012	992,671	86,194,513	102,200,628	8,972,827	3,054,734	201,415,374
Cost/Revaluation	998,037	134,782,690	206,828,661	10,402,349	5,211,769	358,223,507
Accumulated depreciation and impairment losses	(5,366)	(48,588,177)	(104,628,033)	(1,429,522)	(2,157,035)	(156,808,133)
3.1 Reconciliation of Carrying Value	Land	Buildings	Infrastructure	Community	Other Assets	Total
	R	R	R	R	R	R
as at 1 July 2010	-	91,617,578	185,914,990	9,127,356	3,588,880	290,248,804
Cost/Revaluation	-	-	-	-	-	-
Change in accounting policy (note 29)	-	134,782,690	191,665,757	9,789,021	4,192,377	340,429,845
Accumulated depreciation and impairment losses	-	(43,165,112)	(5,750,767)	(661,665)	(803,497)	(50,181,041)
Acquisitions	-	-	4,074,088	-	178,687	4,252,755
Capital under Construction	-	-	8,904,445	-	-	8,904,445
Depreciation	-	(2,711,183)	(10,692,666)	(282,828)	(738,839)	(14,425,618)
as at 30 June 2011	998,037	88,906,395	112,138,730	8,844,528	3,028,708	213,916,398
Cost/Revaluation	998,037	134,782,890	204,644,290	9,789,021	4,371,044	354,585,082
Accumulated depreciation and impairment losses	-	(45,876,295)	(92,505,560)	(944,493)	(1,342,336)	(140,668,684)

3.2 The land balance present the capitalised portion of the landfill site (refer to note 13 on provisions).

3.3 Property, plant and equipment pledged as security	2012	2011
	R	R
Property- ERF 125		
Cost		
Accumulated depreciation	3,300,000 (602,721) 2,697,279	3,300,000 (535,752) 2,764,248

3.4 The property ERF 125 is the Municipal's Head office. The property is mortgaged to DBSA for a loan advanced to the municipality, (refer note 11)

GREAT KEI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

	Computer Software R	Total R
4 INTANGIBLE ASSETS		
4.1 Reconciliation of carrying value		
as at 1 July 2011	40,394	40,394
Cost	60,590	60,590
Change in accounting policy (note 29)	(20,196)	(20,196)
Accumulated amortisation and impairment losses	236,715	236,715
Acquisitions	(99,101)	(99,101)
Amortisation	178,009	178,009
as at 30 June 2012	297,306	297,306
Cost	(119,297)	(119,297)
Accumulated amortisation and impairment losses		

	Computer Software R	Total R
4.2 Reconciliation of carrying value		
as at 1 July 2010		
Cost		
Change in accounting policy (note 29)		
Accumulated amortisation and impairment losses		
Acquisitions	60,590	60,590
Amortisation	(20,196)	(20,196)
as at 30 June 2011	40,394	40,394
Cost	60,590	60,590
Accumulated amortisation and impairment losses	(20,196)	(20,196)

4.3 The municipality's intangible assets is composed of systems software.

	Investment property R	Total R
5 INVESTMENT PROPERTY CARRIED AT COST		
5.1 Reconciliation of carrying value		
as at 1 July 2011	126,884,942	126,884,942
Cost	126,884,942	126,884,942
Change in accounting policy (note 29)	-	-
Accumulated depreciation and impairment losses	-	-
as at 30 June 2012	126,884,942	126,884,942
Cost	126,884,942	126,884,942
Accumulated depreciation and impairment losses	-	-
5.1 Reconciliation of carrying value		
as at 1 July 2010	126,884,942	126,884,942
Cost		
Change in accounting policy (note 29)		
Accumulated depreciation and impairment losses		
as at 30 June 2011	126,884,942	126,884,942
Cost	126,884,942	126,884,942
Accumulated depreciation and impairment losses	-	-

5.2 The municipality's investment properties is composed of various undeveloped land.

GREAT KEI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

	2012 R	2011 R
6 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS		
Trade creditors		
Payments received in advance	4,735,330	1,726,274
Other creditors	2,768,621	2,134,477
Total creditors	535,661	(43,929)
	<u>8,039,611</u>	<u>3,816,823</u>

The fair value of trade and other payables approximates their carrying amounts as the municipality pays its major providers of services within 30 days.

7 CONSUMER DEPOSITS

Electricity and Water	<u>80,503</u>	<u>80,503</u>
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8 VAT

8.1 Payable	<u>1,444,519</u>	<u>1,922,816</u>
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VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors and amount due represent the VAT component in receivables.

9 PROVISIONS

Performance bonus		
Current portion of long-service provision	994,992	446,549
Provision for leave	119,038	384,591
Total Provisions	1,125,476	1,116,969
	<u>2,239,503</u>	<u>1,948,108</u>

Performance bonuses are paid one year and five months in arrear as the assessment of eligible employees had not taken place at the reporting date and no present obligation exist.

The balance of the performance bonus provisions relate to amounts not yet paid to certain employees due to disputes over the assessment process.

The movement in current provisions are reconciled as follows:

	Performance Bonus	Provision for leave
as at 1 July 2011		
Contributions to provision	446,549	1,125,476
Expenditure incurred	\$48,443	-
as at 30 June 2012	<u>994,992</u>	<u>1,125,476</u>
as at 1 July 2010		
Contributions to provision	446,549	1,116,969
Expenditure incurred	-	-
as at 30 June 2011	<u>446,549</u>	<u>1,116,969</u>
as at 1 July 2011		
Transfer from non-current	Current	Other
Contributions to provision	portion Long- service	provisions
Expenditure incurred	119,036	-
as at 30 June 2012	<u>119,036</u>	<u>-</u>
as at 1 July 2010		
Transfer from non-current	384,591	-
Contributions to provision	-	-
Expenditure incurred	-	-
as at 30 June 2011	<u>384,591</u>	<u>-</u>

GREAT KEI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
 for the year ended 30 June 2012

	2012 R	2011 R
10 UNSPENT CONDITIONAL GRANTS AND RECEIPTS		
10.1 Unspent Conditional Grants from other spheres of Government		
MIG Grants	<u>8,573,330</u>	-
10.2 Other Unspent Conditional Grants and Receipts		
Total Unspent Conditional Grants and Receipts	<u>2,000,000</u>	<u>1,003,762</u>
Current portion of unspent conditional grants and receipts		
	<u>10,573,330</u>	<u>1,003,762</u>
	<u>10,573,330</u>	<u>1,003,762</u>
See Note 18 for reconciliation of grants and receipts. These amounts are invested in ring-fenced investment until utilised.		

11 BORROWINGS

11.1 Annuity Loans	2,888,922	2,945,970
Less: Current portion transferred to current liabilities	257,048	257,048
Total borrowings	<u>2,945,970</u>	<u>3,203,017</u>

11.2 The loan represents amounts owing to The Development Bank of Southern Africa 'DBSA' by the Municipality. The loan is repayable over 10 years commencing from 30 June 2009 on equal quarterly instalments with a fixed annual interest rate of 13%. The loan is secured by a mortgage bond registered in favour of DBSA over the Municipality's Head offices, formerly Royal Hotel situated at Number 17 Main Street, Komga.

12 OTHER FINANCIAL LIABILITIES

Other current financial liabilities	<u>1,626,772</u>	<u>1,577,671</u>
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13 NON-CURRENT PROVISIONS

Provision for rehabilitation of landfill sites	1,006,720	998,037
Provision for long-service awards		
	<u>1,006,720</u>	<u>998,037</u>

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted at 8.5%, over an average period of 187 years.

The long-service award is payable after every 5 years of continuous service. The provision is an estimate of the long-service based on historical staff turnover.

The movement in the non-current provision is reconciled as follows: -

Provision for rehabilitation of landfill sites:		
Balance at the beginning of year	(998,037)	(998,037)
Increase in provision due to discounting	(6,663)	-
Balance at the end of year	<u>(1,006,720)</u>	<u>(998,037)</u>

The municipality has an obligation to restore a landfill site situated in Komga (provided by the Amathole District Municipality). The site is currently unlicensed and is used for general waste disposal (non-hazardous) purposes. The rehabilitation costs of the landfill site was carried out by a professional from OCA and the costs were initially recognised at 30 June 2011.

GREAT KEI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

14 PROPERTY RATES

	2012 R	2011 R
All properties	<u>12,243,249</u>	<u>10,355,256</u>
Valuations		
Residential	2,168,368,228	2,168,368,228
Commercial	140,357,600	140,357,600
State	116,488,535	116,488,535
Municipal	123,044,612	123,044,612
Other	997,164,657	997,164,657
Total Property Valuations	<u>3,545,423,632</u>	<u>3,545,423,632</u>

Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2009. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations.

The following rates have been applied to property valuations to determine assessment rates (Rebates in brackets):

<input type="checkbox"/> Residential properties	0.0045	(Rebate of R45 000 on valuation amount)
<input type="checkbox"/> Commercial properties	0.009	
<input type="checkbox"/> Government properties	0.0015	
<input type="checkbox"/> Agricultural properties	0.0015	(Rebate of 50% on rates amount).

Rates are levied on a monthly basis and due for payment in the following month.

GREAT KEI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

	2012 R	2011 R
15 SERVICE CHARGES		
Sale of electricity	4,366,836	5,332,732
Refuse removal	3,826,291	6,445,788
Total Service Charges	<u>8,193,127</u>	<u>11,778,520</u>

16 RENTAL OF FACILITIES AND EQUIPMENT

Rental of facilities	181,004	266,916
Total rentals	<u>181,004</u>	<u>266,916</u>

17 INTEREST EARNED - EXTERNAL INVESTMENTS

Interest earned from bank	794,059	790,808
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18 GOVERNMENT GRANTS AND SUBSIDIES

18.1 Transferred to Income

Equitable share	27,660,000	24,083,933
MIG Grant	3,318,670	7,888,000
Other Government Grants and Subsidies	3,347,955	2,256,454
Total Government Grant and Subsidies	<u>34,326,625</u>	<u>34,228,387</u>

18.2 Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy of 50 units of electricity per month, which is funded from the grant.

18.3 MIG Grant

Balance unspent at beginning of year	11,892,000	7,888,000
Current year receipts	(3,318,670)	(7,888,000)
Conditions met - transferred to revenue		
Conditions still to be met - remain liabilities (see note 10)	<u>8,573,330</u>	

18.4 The balance represents unutilised but committed capital funds for various project at the end of the financial year. The service providers for the projects were appointed during the year and projects commenced towards end of the year hence billings for the projects had been received as at 30 June 2012.

18.5 Other Government Grants and Subsidies

Balance unspent at beginning of year	1,003,762	-
Current year receipts	4,344,193	3,260,216
Conditions met - transferred to revenue	(3,347,955)	(2,256,454)
Conditions still to be met - remain liabilities (see note 10)	<u>2,000,000</u>	<u>1,003,762</u>

The balance represents unutilised fund at the end of the year.

18.6 Changes in levels of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 5 of 2012), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

GREAT KEI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

	2012 R	2011 R
19 OTHER INCOME		
Building plan fees	320,035	308,443
Cavaran park revenue	128,665	158,644
LG Seta training allowance	62,806	22,175
Clearance fees	66,581	21,781
other	646,594	1,164,606
	1,224,682	1,675,649

	2012 R	2011 R
20 EMPLOYEE RELATED COSTS		
Employee related costs - Salaries and Wages	13,749,130	12,572,075
Employee related costs - Contributions for UIF, pensions and medical aids	2,162,236	1,850,041
Housing benefits and allowances	1,275,259	1,092,957
Overtime payments	333,476	272,297
Performance and other bonuses	1,592,312	1,161,630
Long-service awards	164,133	172,243
Other employee related costs	19,276,546	17,121,242
Employee Related Costs	19,276,546	17,121,242

There were no advances to employees.

	2012 R	2011 R
Remuneration of the Municipal Manager		
Annual Remuneration	517,172	-
Back pay	176,015	-
Acting allowance	6,855	-
Travel, motor car, accommodation, subsistence and other allowances	123,351	-
Contributions to UIF, Medical and Pension Funds	45,900	-
Total	869,294	-

	2012 R	2011 R
Remuneration of the Chief Finance Officer		
Annual Remuneration	379,364	352,464
Back pay	75,790	2,700
Acting allowance	142,809	120,000
Travel, motor car, accommodation, subsistence and other allowances	60,260	8,505
Contributions to UIF, Medical and Pension Funds	658,024	483,670
Total	658,024	483,670

	2012 R	Corporate Services R	Community Services R
Remuneration of Individual Executive Directors			
Annual Remuneration	237,000	395,338	-
Travel, motor car, accommodation, subsistence and other allowances	210,000	199,901	-
Contributions to UIF, Medical and Pension Funds	489	72,034	-
Total	447,499	658,273	-

	2011 R	Corporate Services R	Community Services R
2011			
Annual Remuneration	233,215	219,600	208,680
Acting allowance	-	19,518	-
Travel, motor car, accommodation, subsistence and other allowances	-	254,701	-
Contributions to UIF, Medical and Pension Funds	3,698	7,483	20,531
Total	236,913	501,300	229,211

GREAT KET MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

	2012 R	2011 R
21 REMUNERATION OF COUNCILLORS		
Councillors	1,959,277	1,607,931
Councillors' pension and medical aid contributions	200,412	208,625
Councillors' allowances	677,628	713,348
Total Councillors' Remuneration	2,847,317	2,529,904

In-kind Benefits

The Mayor is full-time and is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of the Council owned vehicle as well as a driver for official duties.

22 DEPRECIATION AND AMORTISATION EXPENSE

Property, plant and equipment	16 023,190	14 425,516
Total Depreciation and Amortisation	16,023,190	14,425,516

23 FINANCE COSTS

Borrowings	405,576	436,187
Other	37,523	8,314
Total Finance Costs	443,099	445,501

24 BULK PURCHASES

Electricity	6,115,575	5,145,745
Water	143,779	-
Total Bulk Purchases	6,259,354	5,145,745

GREAT KEI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

	2012 R	2011 R
25 GENERAL EXPENSES		
Included in general expenses are the following:-		
Advertising	546,856	341,940
Admin fees	172,061	30,759
Audit fees	-	-
Bank charges	1,720,255	-
Cleaning	144,180	103,358
Conferences and delegations	17,406	12,845
Consulting fees	140,741	141,350
Financial management grant	842,052	-
Fuel and oil	1,859,111	981,143
Insurance	503,825	358,240
Legal expenses	178,519	180,009
Licence fees - vehicles	747,427	865,614
Licence fees - computers	6,086	35,427
Membership fees	180,454	6,998
Postage	93,615	-
Professional fees	152,570	1,850
Rental of office equipment	996,830	440,059
Security costs	853,318	871,975
Subscription & publication	7,219	5,416
Telephone cost	200,000	104,948
Training	1,031,898	916,825
Travel and subsistence	52,993	190,875
Uniforms & overalls	119,506	246,785
Valuation costs	88,052	49,786
Water and Sanitation	544,307	-
Other	966,802	279,224
	<u>3,352,950</u>	<u>2,349,519</u>
	<u>15,619,913</u>	<u>8,323,733</u>

GREAT KEI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
 for the year ended 30 June 2012

	2012 R	2011 R
26 PROFIT / (LOSS) ON FAIR VALUE ADJUSTMENT		
Other financial assets		2,284,531
Other financial liabilities		(2,117,904)
Total Profit / (Loss) on Fair Value Adjustment		166,627

27 CASH GENERATED BY OPERATIONS

Surplus/(deficit) for the year	(6,611,896)	(20,658,396)
Adjustment for:-		
Depreciation and amortisation	18,122,291	14,445,712
Contribution to provisions - non-current	548,443	
Contribution to provisions - current	3,993,977	32,004,529
Fair value adjustments		166,627
Operating surplus before working capital changes:		14,052,815
(Increase)/decrease in trade receivables	(12,031,085)	(9,401,731)
Increase/(decrease) in conditional grants and receipts	9,569,568	21,085
Increase/(decrease) in trade payables	4,222,989	(4,507,488)
Increase/(decrease) in VAT payable	(478,296)	(624,024)
Cash generated by/(utilised in) operations	15,335,991	11,436,313

28 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following:

Bank balances and cash	28,040,768	16,328,539
Net cash and cash equivalents (net of bank overdrafts)	28,040,768	16,328,539

GREAT KEI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

2012	2011
R	R

29 CHANGE IN ACCOUNTING POLICY

The following adjustments were made to amounts previously reported in the annual financial statements of the municipality arising from the implementation of new accounting policies and changes to existing policies:

29.1 Property, plant and equipment

Balance previously reported	10,018,504
Implementation of GRAP	- 462,512,137
Infrastructure previously not recorded credited to Accumulated Surplus/(Deficit) (see 29.3 below)	-
Total	462,512,137

29.2 Accumulated Depreciation

Balance previously reported	-
Implementation of GRAP	(45,878,295)
Backlog depreciation: Land and buildings	- (92,505,560)
Backlog depreciation: Infrastructure	- (944,493)
Backlog depreciation: Community	- (1,342,336)
Backlog depreciation: Other	- (20,195)
Total (debited to Accumulated Surplus/(Deficit)) (see 29.3 below)	(140,688,880)

29.3 Accumulated Surplus/(Deficit)

Implementation of GRAP	462,512,137
Fair value of Property, Plant and Equipment previously not recorded (see 29.1 above)	- (140,688,880)
Backlog depreciation (see 29.2 above)	12,625,632
Correction of prior period errors	(981,023)
Provisions for bad debt not previously provided	-
Total	333,487,866

30 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

30.1 Unauthorised expenditure

Reconciliation of unauthorised expenditure	
Opening balance	1,459,362
Expenditure not budgeted for	-
Approved by Council or condoned	-
Expenditure exceeded budget	625,362
Transfer to receivables for recovery	-
Expenditure not recoverable - written off	(6,245,000)
Unauthorised expenditure awaiting authorisation	1,459,362

30.2 Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure	
Opening balance	5,424,102
Penalties and interest	49,828
Damages paid due to negligence + court order	482,968
Payments in respect of lease contract not cancelled	38,315
Telephone costs in excess of contract amounts	49,027
Expenditure not recoverable - written off	40,315
Fruitless and wasteful expenditure awaiting condonement	(339,025)
	5,995,213
	5,424,102

30.3 Irregular expenditure

Reconciliation of irregular expenditure	
Opening balance	108,355,883
Fruitless and wasteful expenditure current year	5,995,213
Condoned or written off by Council	-
Transfer to receivables for recovery - not condoned	-
Irregular expenditure awaiting condonement	(5,989,473)
	114,351,096
	108,355,883
Goods not procured in terms of the Supply Chain No disciplinary action taken	1,850,917
Management policy	6,735,022
Non-compliance with the Competitive bidding No disciplinary action taken	8,595,939

GREAT KEI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
 for the year ended 30 June 2012

	2012 R	2011 R
31 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
31.1 Contributions to organised local government		
Council subscriptions		104,944
Amount paid - current		(104,944)
Balance unpaid (included in payables)		

	2012 R	2011 R
31.2 Audit fees		
Opening balance		
Current year audit fee		1,720,255
Amount paid - current year		687,648
Amount paid - previous years		(500,000)
Balance unpaid (included in payables)		1,220,255

	2012 R	2011 R
31.3 VAT		
VAT input receivables and VAT output payables are shown in note 8. All VAT returns have been submitted by the end of the year.		
31.4 PAYE and UIF		
Opening balance		143,346
Current year payroll deductions		2,670,542
Amount paid - current year		2,202,575
Amount paid - previous years		(2,488,939)
Balance unpaid (included in payables)		183,603

The balance represents PAYE and UIF deducted from the June 2012 payroll. These amounts were paid during July 2012.

	2012 R	2011 R
31.5 Pension and Medical Aid Deductions		
Opening balance		132,324
Current year payroll deductions and Council Contributions		2,548,330
Amount paid - current year		4,056,598
Amount paid - previous years		(2,325,947)
Balance unpaid (included in payables)		222,383

The balance represents pension and medical aid contributions deducted from employees in the June 2012 payroll as well as Council's contributions to pension and medical aid funds. These amounts were paid during July 2012.

	Total R	Outstanding less than 90 days R	Outstanding more than 90 days R
as at 30 June 2012			
Councillor Gavumente- Ndabambi Luleka	2,939	200	2,648
Councillor Labuschange Jacob Coenraadz	26,100	2,028	24,072
Total Councillor Arrear Consumer Accounts	29,039	2,319	26,720
as at 30 June 2011			
NONE	-	-	-
Total Councillor Arrear Consumer Accounts	-	-	-

	Highest Amount Outstanding R	Ageing Days
During the year the following Councillors had arrear accounts outstanding for more than 90 days.		
as at 30 June 2012		
Councillor Gavumente- Ndabambi Luleka	2,939	365 days
Councillor Labuschange Jacob Coenraadz	26,100	365 days
as at 30 June 2011		
NONE	-	-

GREAT KEI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

2012	2011
R	R

31.7 Compliance with Chapter 11 of the Municipal Finance Management Act

The Municipality has a supply chain management policy in place.

32 CAPITAL COMMITMENTS

32.1 Commitments in respect of capital expenditure

- Approved and contracted for

Infrastructure
Community
Other

13,965,460	-
11,436,588	-
663,085	-
1,844,887	-

- Approved but not yet contracted for

Infrastructure
Community
Other

14,677,000	14,377,820
5,630,000	13,450,000
9,047,000	756,258
-	171,562

Total

28,642,460	14,377,820
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This expenditure will be financed from:

- Government Grants
- Own resources

27,668,480	14,377,820
974,000	-
28,642,460	14,377,820

Operating leases- as lessee (expense)

Minimum lease payment due
within one year
In second to fifth year inclusive

358,816	223,837
388,398	131,818
747,014	355,755

Operating lease payments represent rentals payable by the municipality for certain of its office equipment. Leases are negotiated for an average term of 3-5 years. No contingent rent is payable.

33 CONTINGENCIES

33.1 Contingent liabilities

The following contingent liabilities were noted at the financial year end:

Legal costs

370,000	101,873
---------	---------

33.2 The contingent legal costs relates to the following cases:

Third party

Mr N M Mkhokhakall
Mr R F Butler
Mr X Nkhalizo; Mr M Phangindawo; Mr D B Gwabeni and Ms N Sopolela
Ms N S Nose-Nerufandani
Ms M Siko; Mr J J F Vermeulen; Ms S Nooko; and Mr N Dokwana
Great Kei delegation
East Coast Ratepayers and Residents Forum
Total contingent claims

Nature of dispute

Labour dispute	100,000	-
Labour dispute	30,000	-
Investigations and	100,000	-
Arbitration	30,000	-
Labour dispute	50,000	-
Review	30,000	-
Proposed agreement	30,000	-
	370,000	

33.3 Contingent assets

The municipality had no confirmed contingent assets at the end of the year.

34 Related parties

34.1 The municipal had the following related parties:

Related party
C M Mbelelo
P Gwana
D M Mbzeni
M N Mkhokhakall
M Augustine

Nature of relation	Status at year end
Municipal Manager	
Chief Financial Officer	
Strategic services	Resigned
Corporate service	Resigned
Acting Corporate	Resigned

34.2 Related party transactions

Refer to note 22 for analysis of remuneration paid to section 57 managers listed above.

35 KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGEMENTS

The following areas involve a significant degree of estimation uncertainty:

Useful lives and residual values of property, plant, and equipment
Recoverable amounts of property, plant and equipment

Provision for rehabilitation of landfill sites (discount rate used, number of years, amount of cash flows)
Present value of defined benefit obligation
Fair value of plan assets
Provision for doubtful debts
Impairment of assets
Provision for long-term service award
Other

The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Provisions
Other

GREAT KEI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

36 RISK MANAGEMENT

36.1 Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

		2012	2011
Borrowings			
Trade and other payables			
Other			
2012			
Borrowings			
Trade and other payables			
Other			
2011			
Borrowings			
Trade and other payables			
Other			
2011			
Borrowings			
Trade and other payables			
Other			

		Later than one month and not later than three months	Later than one year and not later than five years
Not later than one month			
23,293		46,582	
8,039,811		-	
13,725,124		-	
Later than three months and not later than one year			
223,541		1,632,574	
Not later than one month		Later than one month and not later than three months	
20,221		40,442	
3,816,823		-	
4,584,751		-	
Later than three months and not later than one year		Later than one year and not later than five years	
198,385		1,436,524	

36.2 Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

OR

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately 60% of its borrowings in fixed rate instruments.

At year end, financial instruments exposed to interest rate risk were as follows:

- Cell deposits	23,989,636	13,975,698
- Development Bank of South Africa loan	2,945,970	3,203,017

37 Material losses

The municipality made material loss of 39% on its electricity bulk purchases.

Bulk purchases	KWH
Sales	8,465,992
Loss	<u>5,233,615</u>
	<u>3,232,377</u>

38 Reconciliation Of Budget Surplus/Deficit With The Surplus/Deficit In The Statement Of Financial Performance

Net Surplus/Deficit Per The Statement Of Financial Performance	(6,611,895)
Adjusted For:	
Fair Value Adjustments	3,993,977
Impairments Recognised/Reversed	16,122,291
Depreciation	(3,130,000)
Capital expenditure	<u>(10,653,744)</u>
Amount not budgeted for	<u>(259,372)</u>
Net Surplus/Deficit Per Approved Budget	<u>(259,372)</u>